Personal Taxpayers Series
IR78

Inland Revenue

Looking to the future

Tax reliefs to help you save for retirement

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Some you might find useful are

COP1	Code of Practice. Mistakes by the Inland Revenue
PSO1	Occupational Pension Schemes. A guide for members of tax approved schemes
PSO2	Personal Pensions (including Stakeholder Pensions) - a guide for members of tax approved schemes.

(PSO1 and PSO2 are only available from the address on page 19.)

We have a full range of services for people with disabilities, including leaflets in Braille, audio and large print. For details, please ask your local Inland Revenue office or Enquiry Centre.

Our leaflet IR120 'You and the Pension Schemes Office' tells you more about the standard of service you can expect from us (Pension Schemes Office is the old name for Inland Revenue (Savings, Pensions, Share Schemes)). It also tells you the steps you can take if you want to make any comments on the service you receive, or complain about the way your tax affairs have been handled.

Our IR List 'Catalogue of leaflets and booklets' gives further information about our publications, most of which you can get from any Inland Revenue Enquiry Centre, Tax Office or National Insurance Contributions Office. Addresses are in your local telephone book under 'Inland Revenue'. Most offices are open to the public from 8.30am to 4.30pm, Monday to Friday, and some are also open outside these hours. Social Security offices, your library or Citizens' Advice Bureau may also have copies of our leaflets.

You can also get most of our leaflets

by calling our Orderline on **0845 9000 404** between 8.00am and 10.00pm, seven days a week (except Christmas Day)

by fax on **0845 9000 604**

by e-mail on **saorderline.ir@gtnet.gov.uk**

by writing to **PO Box 37**
St Austell
Cornwall
PL25 5YN.

Many leaflets are also available on the Internet at **www.inlandrevenue.gov.uk**

When our offices are closed, you can get general advice on Self Assessment by calling our Helpline, in the evenings or at weekends, on **0845 9000 444**.

Helpline and Orderline calls are charged at local rates.

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Introduction

About this booklet

This booklet should help you if you are

- thinking about joining a private pension scheme (a private pension scheme is an occupational, personal or stakeholder pension scheme), or
- already in a private pension scheme, but are not sure about the tax rules that apply to it.

The booklet gives

- **general information** about the tax rules that apply to all private pension schemes (Part 1)
- **detailed information** about the special tax rules that apply to specific types of private pension schemes (Parts 2 and 3) and
- **contact points** where you can get more help (Part 4).

Please note
(1) The special rules that apply to the retirement and death benefits of controlling directors who are members of occupational pension schemes are beyond the scope of this leaflet. Appendix 2 explains who falls within this category and how to obtain details of these special rules.

(2) This leaflet is not intended to give guidance on **inheritance tax** aspects of private pension provision. Your pension provider or a Tax Office can give you advice on this issue. The Inland Revenue (Capital Taxes) also operates an Inheritance Tax Helpline on **0131 777 4204**.

PART 1. Private pension schemes

Why join a private pension scheme?

Although there is a state retirement pension, many people wish to top it up by making their own arrangements or by joining a pension scheme run by their employer. These non-state pension arrangements are known as 'private pension schemes'.

How do private pension schemes work?

You and your employer (if you have one) can pay money into a private pension scheme. The scheme manager, on your behalf, then invests this money. The money, and the investment income it generates, is then used to pay benefits on your retirement or death.

What types of private pension scheme are available?

There are three main types of private pension scheme.

Occupational pension schemes.

Personal pension schemes.

Stakeholder pension schemes.

Parts 2 and 3 of this booklet look at these types of private pension scheme in more detail.

How do the tax rules help?

If your private pension scheme is tax approved, more money is available to provide your benefits, because of the tax reliefs available for retirement provision.

What tax reliefs are available to private pension schemes?

Private pension schemes that have been approved by the Inland Revenue attract the following tax reliefs.

- You will get tax relief on the contributions you pay to the scheme.

- You will not be taxed on any contributions your employer makes to the scheme.
- Your employer will get tax and National Insurance relief on any contributions he or she makes to your scheme.
- There will be no tax to pay on your pension scheme's investments.
- When you retire, part of your benefits may normally be taken as a tax-free lump sum.

How do I know if a private pension scheme is 'tax approved'?

The manager of the scheme will be able to tell you whether it has received tax approval from the Inland Revenue.

Can I pay into all three types of private pension scheme at the same time?

This depends upon how much you earn.

If you earn more than £30,000 then you may normally only contribute to an occupational pension scheme or a personal and/or stakeholder pension. The only exceptions to this are explained on pages 13 and 14.

If you earned £30,000 or less and were not a 'controlling director' (see Appendix 2 of this booklet) in any of the last five years then you may contribute to an occupational pension scheme and a personal and/or stakeholder pension at the same time during any tax year.

If you are a non-earner then you may contribute to personal and stakeholder pension schemes at the same time.

If you are contracting-out (see page 6) the Inland Revenue can only pay contracted-out rebates to a single scheme at any one time.

What will be the best type of private pension scheme for me?

This will depend upon your circumstances. To help you understand your pension choices and make informed decisions, the Department of Social Security (DSS) produce a range of guides on this issue. The Financial Service Authority (FSA) have also produced a set of 'decision trees' to guide people through this process. See Part 4 of this booklet for details of how to obtain copies of these DSS and FSA publications.

Do I have to use a private pension scheme to save for my retirement?

No. There are a variety of other ways that you could save to provide capital or income for your retirement. The Financial Services Authority (see Part 4 of this booklet for contact details) provides a number of free booklets on savings products. You might also consider paying for professional independent financial advice.

Can I get my private pension scheme contributions back if I later decide that I do not want to be in a scheme?

Private pension schemes are used solely for retirement provision, they cannot normally pay money to you before you retire. However, your contributions may be refunded to you if you

- cancel your membership during a cooling-off period
- join a scheme you were not eligible to join
- pay higher contributions than the tax rules will allow, or
- leave a salary related (also known as a 'final salary' or 'defined benefit') occupational pension scheme (see page 7), or an occupational pension scheme that is operating as a stakeholder pension scheme (see page 18) you have been in for less than two years.

What private pension scheme benefits will I get?

A private pension scheme will provide you with retirement benefits that commence between ages 50 and 75. The majority of schemes will also pay benefits to your survivors on your death.

How these benefits are calculated will depend upon the kind of scheme you are in. A scheme booklet or the scheme's manager will tell you what kind of pension scheme it is.

Parts 2 and 3 of this booklet set out the benefits that the different types of private pension scheme may pay. They also explain the maximum the tax rules allow. However, the benefits any occupational pension scheme pays will depend upon its rules and may be below this maximum. So you should refer to your scheme's booklet for specific details of the benefits you are likely to get.

The retirement benefits of controlling directors are beyond the scope of this booklet. Appendix 2 of this booklet explains who falls within this category and where further information on their benefits is available.

What happens to my private pension scheme benefits if I leave the scheme before I can take my benefits?

You will not lose your benefits. The scheme will maintain them for you until you are ready to take them. Alternatively, you can transfer them to another private pension scheme.

What does it mean if a private pension scheme is 'contracted-out'?

Many private pension schemes provide employees with benefits that replace those available under the earnings-related part of the State Earnings Related Pension Scheme (SERPS). This is known as 'contracting-out'. The Department of Social Security produce a series of eight guides on pension options, including 'Contracted-out - Your guide (PM7)'. See Part 4 of this booklet for details of how to obtain a copy.

If you are already contributing to a pension your employer or the manager of your private pension plan will be able to tell you if you are contracted out of SERPS. If not, you can contact the Contracted-Out Employments Group Helpline on Tel **0845 91 50150**.

PART 2. Occupational pension schemes

What is an occupational pension scheme?

An occupational pension scheme is an arrangement an employer makes, or a group of employers make, to provide retirement and death benefits for employees and their families. It is managed separately from the employer's business. The benefits paid by an occupational pension scheme depend upon its particular rules.

An occupational pension can be paid as well as the basic state pension and the pension from the State Earnings Related Pension Scheme (SERPS). Or it can be used to contract-out of SERPS (see page 6), which means that the pension from your employer will be paid instead of SERPS.

Are all occupational pension schemes the same?

No. Occupational pension schemes are

- **salary related (also known as 'final salary' or 'defined benefit') schemes** where the benefits paid depend upon your length of service, final earnings and the benefit accrual rate used by the scheme, **or**

- **money purchase (or 'defined contribution') schemes** where the benefits paid depend solely upon the amount of contributions that have been paid and the investment return achieved on them, **or**

- **hybrid schemes,** which offer both salary related and money purchase benefits.

It is also possible for occupational pension schemes to operate as **stakeholder pension schemes**. Part 3 of this booklet says more about this.

Do I have to contribute to any occupational pension scheme I join?

This depends upon the rules of the scheme you join. Some occupational pension schemes require members to pay regular contributions, but others do not. The scheme booklet or the scheme's manager will tell you what contributions you have to pay.

However, even if an occupational pension scheme does not require members to contribute, they can usually choose to pay contributions if they wish. Such payments, known as **additional voluntary contributions (AVCs)**, can be paid to the

occupational pension scheme or a separate AVC scheme operated by the employer or a pension company (i.e. a **'free-standing additional voluntary contribution scheme' (FSAVCS)**).

Some occupational pension scheme members can also pay such contributions to a **stakeholder or personal pension scheme** (see page 13).

If I contribute to an occupational pension scheme, how much can I pay?

You can normally pay up to 15% of your earnings into tax approved occupational pension schemes in any year, but this amount may be reduced where the contributions would cause scheme benefits to exceed what the tax rules will allow a scheme to pay.

If you joined an approved occupational pension scheme after May 1989, then the earnings from which you can pay contributions are themselves subject to a limit. This limit, known as the 'earnings cap', only effects high earners. Appendix 1 of this booklet explains how it works.

Tax relief on your occupational pension scheme contributions is normally given by your employer, who will deduct the contributions from your earnings before working out your tax.

What benefits will I receive when I retire?

This will depend upon the type of occupational pension scheme you have joined. The retirement benefits available under **salary related** and **money purchase** occupational pension schemes are described separately below.

How are salary related (also known as 'final salary' or 'defined benefit') occupational pension scheme retirement benefits calculated?

Salary related occupational pension schemes normally base their benefits upon 'final earnings', subject to an upper limit known as the 'earnings cap' (see Appendix 1 of this booklet). 'Final earnings' are usually the amount that the member earns in the year before retirement. The tax rules allow 'final earnings' to cover basic salary plus other taxable earnings (such as overtime, bonuses and other benefits-in-kind paid by an employer). Some schemes use a more limited definition of 'final earnings' to calculate benefits. Your pension scheme manager should be able to tell you what your scheme includes in 'final earnings'.

The maximum allowable **pension** is two-thirds of your 'final earnings' (as allowed by the tax rules) after completing at least 20 years service with the employer sponsoring the scheme, but in most schemes it takes longer, usually 40 years, to build up the maximum allowable pension.

In most schemes you can choose to have part of your pension paid as a tax-free **retirement lump sum**. The maximum allowable lump sum is one and a half times your final earnings after at least 20 years in the scheme, but in most schemes it will take longer, usually 40 years, to get the maximum allowable lump sum.

If you retire with less than 20 years in the scheme then the maximum allowable pension and lump sum you may receive are reduced proportionately.

The special rules governing the retirement benefits of controlling directors in salary related occupational pension schemes are beyond the scope of this leaflet. Appendix 2 of this booklet explains who falls within this category and where further information on their benefits is available.

How are money purchase (or defined contribution) occupational pension scheme retirement benefits calculated?

Money purchase occupational pension schemes are normally subject to the same tax limits as salary related occupational pension schemes. However, the level of benefits they pay will not depend on 'final earnings', but on the amount of contributions paid into the scheme and the investment return achieved on them.

Some money purchase occupational pension schemes pay pensions from their own resources, but most provide their members' main retirement benefit through buying an annuity. This means that the retirement income that will be received will also depend upon annuity rates at the time the annuity is bought.

The tax rules allow members of money purchase occupational pension schemes the flexibility to defer purchasing an annuity from age 50 (or from age 60 for a contracted-out scheme) up until age 75 and instead draw an income from the pension scheme. Not all schemes offer this '**income drawdown**' facility and contracted-out money purchase occupational pension schemes can only offer it from 6 April 2001. The scheme booklet or scheme manager will tell you whether the option is available.

In most schemes you can choose to have part of your retirement benefit paid as a tax-free **lump sum**. This lump sum is subject to the same rules as a lump sum from a salary related occupational pension scheme and its payment will reduce the money available to buy an annuity.

The special rules governing the retirement benefits of controlling directors in money purchase occupational pension schemes are beyond the scope of this leaflet. Appendix 2 of this booklet explains who falls within this category and where further information on their benefits is available.

What happens if I have pension benefits from previous employments?

The maximum pension benefits set out above relate to what may be accrued over your whole career. So, where you have changed employment during your career, the tax rules allow overall benefits to be calculated in one of two ways. Your scheme administrator may adopt whichever gives you the best overall pension.

Option 1
If your pension from your present employer's occupational pension scheme does not exceed 1/60th of final earnings for each year of service, it is unlikely that all your pensions added together will exceed the maximum allowable pension. So pensions from earlier employments do not have to be taken into account when working out the tax limits that apply to the pension from your current employment.

This option is most helpful to people with large pensions from former employments.

Option 2
If the pension from your employer's occupational pension scheme builds up at a faster rate than 1/60th of final earnings for each year of service, it must be added to the pension you are due to receive from former employments. If the total exceeds the maximum allowable pension (two-thirds of your final earnings), the pension from your employer will need to be reduced unless

- you earn less than a quarter of the earnings cap (see Appendix 1 of this booklet), or

- the total pensions from previous employments equal less than £260 a year.

This option is most helpful to people with small pensions from former employers.

Can my pension increase in value after I have retired?

Yes, the payers of occupational pensions (and annuities bought from occupational pension schemes) can increase pensions up to the maximum that could have been paid when you retired. Once this level is reached, they can pay further increases to take account of rises in the cost of living since retirement.

How are salary related and money purchase occupational pension scheme death benefits calculated?

The following paragraphs explain the maximum death benefits allowed by the tax rules, but the benefits payable to you will depend on the rules of your scheme. So you should check the scheme booklet or ask the scheme manager for details.

If you die before you retire, a tax-free lump sum of up to four times your annual earnings can usually be paid to someone you nominate. In addition, your husband, wife and/or anyone financial dependent on you (or financially interdependent with you) may also be paid a pension (or annuity) from the scheme. However, any one of these pensions cannot be more than two-thirds of the pension you would have received when you retired and together they cannot add up to more than the pension you would have received when you retired.

If you die after you retire, what happens on your death depends upon the type of pension that was purchased. Some pensions are paid for a guaranteed period, often five years. If you die before the end of this guaranteed period, your pension may continue to be paid until this period ends, or be paid as a single lump sum. Where your pension continues to be paid it may be replaced, at the end of the guarantee period, with the separate pensions described below.

If you are unmarried and have no dependants, your pension guarantee (in the form of a lump sum) or the contributions you paid can usually be paid to someone you have nominated.

If your pension is not guaranteed, or you die after the guarantee has ended, separate pensions may be paid to your spouse and/or dependants. Again, each pension cannot be more than two-thirds of the pension guarantee you would have received when you retired (before taking off any lump sum) and together they cannot add up to more than the pension you would have received when you retired.

If you die during income drawdown from a defined contribution (money purchase) occupational pension scheme, the benefits paid depend upon whether the scheme was contracted-out (see page 6 of this booklet).

Income drawdown can be guaranteed, often for five years. If you die before the end of any guaranteed period, **and your scheme is not contracted-out**, your spouse and/or dependants can receive a single lump sum representing any unpaid income drawdown instalments covered by the guarantee and/or annuities (subject to the limits set out above). However, **if your scheme was contracted-out**, then the lump sum option is not available to your spouse.

If your income drawdown is not guaranteed, or you die after the guarantee has ended, separate annuities may be paid to your spouse and/or dependants.

The special rules governing the death benefits of controlling directors in occupational pension schemes are beyond the scope of this booklet. Appendix 2 of this booklet explains who falls within this category and where further information on their benefits is available.

PART 3. Personal and stakeholder pension schemes

Personal and stakeholder pension schemes are quite similar. So this Part of the booklet considers them together.

What are personal and stakeholder pension schemes?

Personal and stakeholder pensions are run by a wide variety of providers (unlike occupational pension schemes that are only run by employers or their agents). Some personal and stakeholder pension schemes are run by the traditional pension providers (life assurance companies and friendly societies, banks and building societies, unit trusts, and other similar bodies) and others are run by affinity groups (representative and membership organisation, employers, trade unions, trade associations and other similar bodies). It is up to you to choose which type (if any) that you wish to join.

Stakeholder pension schemes were introduced from 6 April 2001 and are personal pension schemes with low minimum contributions, low cost transfers to and from other schemes and an annual administration charge of no more than 1% of the fund value.

Who can join a personal or stakeholder pension scheme?

People who are not in an occupational pension scheme, including non-earners and the self-employed, can join a personal and/or stakeholder pension scheme if they are

- resident and ordinarily resident in the UK (or non-UK resident, but in receipt of earnings taxable in the UK), and
- aged under 75.

People who are in an occupational pension scheme can join a personal and/or stakeholder pension scheme if they are

- resident and ordinarily resident in the UK (or non-UK resident, but in receipt of earnings taxable in the UK) **and**
- aged under 75, and **either**
  - earn £30,000 or less (see '**Note**' below) and are not a 'controlling director' (see Appendix 2 of this booklet) or

- earn more than £30,000 (see '**Note**' below) and are
  - in an occupational pension scheme that only provides death benefits, **or**
  - their personal or stakeholder pension scheme is only being used to contract out of the State Earnings Related Pension Scheme (SERPS), **or**
  - the occupational pension scheme relates to one job and the personal or stakeholder pension scheme to another separate job, **or**
  - the occupational pension scheme has converted to the tax approval rules for personal and stakeholder pension schemes (see page 18).

Note: You are considered to earn £30,000 or less if your total gross pay from all employments was less than £30,000 in any of the five years before the year in which you want to contribute to a personal or stakeholder pension scheme.

How does membership of a personal or stakeholder pension scheme effect the accrual of benefits under the State Earnings Related Pension Scheme (SERPS)?

If you are an employee, you can have a personal or stakeholder pension plan instead of accruing benefits under SERPS. This is known as 'contracting-out' of SERPS (see page 6) and will not effect your entitlement to the basic state pension.

Do I have to contribute to any personal or stakeholder pension scheme I join?

No. Contributions to personal or stakeholder pension schemes may come from one or more of the following sources.

- Yourself.
- Your employer (if he or she wishes).
- The Inland Revenue's National Insurance Contributions Office (NICO) - if the personal or stakeholder pension scheme has been used to contract out of the earnings related part of the state scheme (see page 6).

If you are employed and have contracted out of the State Earnings Related Pension Scheme (SERPS) using a personal or stakeholder pension scheme it is possible for the scheme to be organised on a 'rebate only' basis. This means that the only money being paid in is the National Insurance contributions rebate and any

related tax reliefs. These payments (known as 'minimum payments') are made by the Inland Revenue and are based on the earnings on which you have paid National Insurance contributions.

It is also possible for personal or stakeholder pension schemes to be funded only by employer's payments, but, in most cases, you will need to contribute yourself if you want to build up a worthwhile pension fund.

If I do contribute to a personal or stakeholder pension, how much can I pay?

Everyone who is eligible (see pages 13 and 14) can contribute up to at least £3,600 into personal and stakeholder pension schemes in any tax year. Some can pay more, subject to the following limits.

Age on first day of tax year (6 April)	**Maximum % of earnings payable as personal pension contributions**
35 or less	17.5
36-45	20
46-50	25
51-55	30
56-60	35
61-75	40

It is important to note the following.

(1) If you are eligible to make personal or stakeholder pension contributions because, although a member of an occupational pension scheme, you earned £30,000 or less and are not a 'controlling director', you may not make personal/stakeholder contributions above this £3,600 limit.

(2) The limits in the table above cover your own contributions, any contributions your employer may make (if you are an employee), and the tax relief you will receive. If the Inland Revenue pay a contracted-out rebate to your scheme, these are **not** included in these limits.

(3) The earnings from which you can pay contributions are themselves subject to a limit. This limit, known as the 'earnings cap', only affects high earners and its operation is explained in Appendix 1.

What happens if my earnings decrease or cease?

Most people experience a year-on-year increase in their earnings. So, for them, the choice each year will be between contributing £3,600 or, if higher, an amount based upon their earnings for the year in question.

However, a personal or stakeholder pension scheme member's earnings in any one tax year can be used as the basis for contributions in the five following years. So, if your earnings decrease or cease, you have the option of basing your contributions on your best earnings in the last five years.

Can I contribute in respect of past and future earnings?

Payments you make to a personal or stakeholder pension scheme between 6 April and 31 January can, if you elect at the time you make the payment, be treated as counting against your pension contribution limit for the previous tax year, rather than against that for the year in which you make the payment.

How is personal or stakeholder pension contribution relief given?

Your pension provider will claim basic rate tax relief from the Inland Revenue and add it to your pension account. So if, for example, the basic rate is 22%, you only need to pay £78 in order that £100 is credited to your scheme. The extra £22 tax relief is claimed on your behalf by your pension provider.

If you pay higher rate tax you will need to tell your Tax Office about your personal or stakeholder pension scheme (using form PP120 (which you can get from your Tax Office), your Self Assessment return or by telephoning your Tax Office). Your Tax Office will then arrange to give you the difference between the basic rate relief claimed by your pension provider and the higher rate tax relief due to you through your PAYE coding or your self assessment.

What benefits will I get from a personal or stakeholder pension scheme?

A lump sum paid free of income tax. You can decide to take up to 25% of your personal or stakeholder fund as a lump sum paid free of income tax at the time you start to take your retirement benefits from the scheme. Any part of the fund built up from contracting-out rebates (which are known as 'protected rights') cannot be taken into account because they may only to be used to provide a retirement income.

Annuities. After taking any lump sum free of income tax, the balance of your pension fund must be exchanged for a stream of lifelong income (this is known as 'an annuity'). This is to ensure that you have an income that will last for life.

The Inland Revenue does not impose any limit on the size of the annuity that can be bought with the money invested in a personal or stakeholder pension scheme. So the size of the annuity will depend upon the amount of contributions that were paid, how successfully they were invested and the annuity rate applied to this money.

The annuity may be paid at a fixed rate, or cost of living increases may be built into it if you wish. It is also possible to buy an annuity that is guaranteed to be paid for up to 10 years.

You may choose to purchase your annuity through your personal or stakeholder pension provider. Alternatively, you can decide to buy an annuity from another annuity provider on the open market.

Income Withdrawal. You do not have to buy an annuity at the same time as you take any tax-free lump sum from your personal or stakeholder pension scheme. You can decide to postpone annuity purchase to a time of your choice so long as the annuity is bought before you reach age 75. In the meantime, you must draw an income directly from your pension fund, but not all schemes offer this **'income withdrawal'** facility and contracted-out personal and stakeholder pension arrangements can only offer it from 6 April 2001.

These income withdrawals may be between 35% and 100% of the annuity that your fund would otherwise have bought. Income withdrawal contains an element of risk, so you might consider paying for independent financial advice before deciding on this option.

Death Benefits. You can decide to purchase an annuity that will continue to make payments to your spouse or dependants on your death. The payments to your spouse or dependants cannot be more than you would have received.

If you die before buying an annuity, your personal or stakeholder pension fund can be paid as a lump sum to your estate or someone you have nominated.

If you die during income withdrawal, your spouse or dependants can choose to continue income withdrawal, buy an annuity or take your remaining retirement fund as a cash lump sum after a tax deduction of 35%.

You can decide to use up to 10% (5% of your earnings prior to 6 April 2001) of your personal or stakeholder pension contributions to pay for life assurance. This will

provide your spouse or dependants with a lump sum or income if you die before your annuity starts to be paid.

What tax is payable on personal or stakeholder pension scheme benefits?

Lump sums. Up to 25% of your personal or stakeholder pension fund can be taken as a cash lump sum without any tax being taken off.

Annuities and income withdrawals. These are taxed, like the earnings you receive from an employer, under the Pay As You Earn (PAYE) system. This means that your pension provider will include your personal tax allowances and reliefs (shown in your tax code) and will deduct any tax you are due to pay before paying your annuity or income drawdown instalments.

Death benefits. Annuity or income withdrawal payments made to your spouse or dependants after your death will normally be taxed under PAYE as above.

If you die during income withdrawal, any balance of your pension fund taken as a cash lump sum by your spouse or dependants or going to your estate will be taxed at 35%.

Lump sum death benefits may form part of your estate for inheritance tax purposes, but this depends upon the circumstances. Your pension provider or a Tax Office can give you more advice on this issue. The Inland Revenue (Capital Taxes) also operates an Inheritance Tax Helpline on **0131 777 4204**.

How am I affected if I am a member of a defined contribution occupational pension scheme that has converted to a stakeholder pension scheme?

If a defined contribution occupational pension scheme converts to a stakeholder pension scheme it will then come under the tax rules for stakeholder pension schemes. The occupational pension scheme tax regime (described in Part 2 of this booklet) will no longer apply.

Part 4. Getting more help

Where can I get more help?

If you already contribute to a pension scheme

At the time of joining your private pension scheme you should receive a booklet giving details of how the scheme works. You should consult this first.

If you need more help you should ask whoever runs your pension scheme. They are best placed to answer your questions about the rules for your particular scheme.

Does the Inland Revenue provide any further information?

Yes. We produce two free booklets that go into more detail about tax reliefs for private pension schemes. These are

- PSO 1 'Occupational Pension Schemes. A guide for members of tax approved schemes.'

- PSO 2 'Personal Pensions (including Stakeholder Pensions). A guide for members of tax approved schemes'

If you would like a copy of these booklets then please ring the Inland Revenue (Savings, Pensions, Share Schemes) orderline on **0115 974 1670**, or write to

Stationery Unit
Inland Revenue (Savings, Pensions, Share Schemes)
Yorke House
P.O. Box 62
Castle Meadow Road
Nottingham
NG2 1BG

Or look on the Internet at **www.inlandrevenue.gov.uk/pso**, where you can find Inland Revenue leaflets on pensions, and **www.inlandrevenue.gov.uk/stakepension** which links to the DSS site and DSS information on pensions.

If you have any questions about the tax rules for private pension provision, any Tax Office or Inland Revenue Enquiry Centre will be able to help. They are listed in the telephone directory under 'Inland Revenue'. Most are open to the public from 8.30am to 4.30pm, Monday to Friday.

The Inland Revenue (Capital Taxes) also operates an Inheritance Tax Helpline on **0131 777 4204**.

Does the Department of Social Security provide any further information?

If you have not yet joined a pension scheme and would like some additional information, the DSS produces the following guides

A guide to your pension options (PM 1)
State pensions – Your guide (PM 2)
Occupational pensions – Your guide (PM 3)
Personal pensions – Your guide (PM 4)
Pensions for the self-employed – Your guide (PM 5)
Pensions for women – Your guide (PM 6)
Contracted-out pensions – Your guide (PM 7)
Stakeholder pensions – Your guide (PM 8)

To get copies of these free guides you can call the Pensions Info-Line on **0845 731 3233**. Calls are charged at local rates and the line is open 24 hours a day. A textphone number is available on **0845 604 0210**. Or, you can write to **DSS Pensions, Freepost BS 5555/1, Bristol, BS99 1BL**.

You can also order these free guides online from the website at **www.dss.gov.uk**

Does anyone else provide further information?

The Financial Services Authority (FSA) produces 'decision trees' (see page 4) and a number of free booklets on savings products.

These can be obtained by contacting the FSA public enquiries Helpline on **0845 606 1234** (calls are charged at local rates) or writing to

The Financial Services Authority
25 The North Colonnade
Canary Wharf
London
E14 5HS

You can also order these free guides online from their website at **www.fsa.gov.uk**.

What can I do if I want to comment about the way my tax affairs have been dealt with?

We always value any comments on the service you have received from your Tax Office or Inland Revenue Enquiry Centre. We welcome any suggestions that could improve the service we provide for you.

If you have a complaint which the Officer in Charge of your own Tax Office cannot settle, you should contact the Director of Inland Revenue (Savings, Pensions, Share Schemes). Our leaflet IR120 'You and the Inland Revenue' tells you how to do that. It is available from any Inland Revenue Enquiry Centre or Tax Office.

If you are not satisfied with the Director's response, you can ask the Adjudicator to review your complaint. The Adjudicator is an impartial referee who will look at both sides of the complaint and, if it cannot be resolved, will recommend appropriate action. The Adjudicator's recommendations are independent.

The Adjudicator's address is

The Adjudicator's Office
Haymarket House
28 Haymarket
London SW1Y 4SP

Tel. 020 7930 2292 (Typetalk facilities are available)
Fax. 020 7930 2298

You can also contact the Adjudicator by e-mail at **adjudicators@gtnet.gov.uk** or visit the website at **www.open.gov.uk/adjoff**

The Adjudicator's Office leaflet AO1 (available from the Adjudicator's Office and Inland Revenue offices) tells you how to make a complaint and gives information on what the Adjudicator can look into.

If you are not satisfied with the service you have received from us or from the Adjudicator, or with the outcome of your complaint, you can ask an MP to refer your case to the Parliamentary Ombudsman. The Ombudsman will accept referral from any MP, but you should approach your own MP first.

Further information is available

from the Office of the Parliamentary Commissioner for Administration

Millbank Tower
Millbank
London SW1P 4QP
Helpline 020 7217 4163
Fax. 020 7217 4160

by visiting the Parliamentary Ombudsman website at **www.ombudsman.org.uk**

by e-mailing **opca-enqu@ombudsman.org.uk**

You can also ask your MP to take up your case with the Inland Revenue or Treasury Ministers.

How to help us improve our overall service

We welcome any general comments you have on how to improve our service to all our customers.

Appendix 1

The earnings cap

If you joined an approved occupational pension scheme after May 1989, or joined a personal or stakeholder pension scheme at any time, then the retirement benefits you may accrue are subject to a limit, known as the 'earnings cap'. This only effects high earners and its impact is explained below.

If you joined an approved occupational pension scheme after May 1989, the maximum pension contribution you can make to that scheme is the lower of 15% of your earnings or 15% of the cap. In addition, the 'final earnings' on which your benefits will be based will be the lower of your actual final earnings or the cap.

If you are a member of one or more personal or stakeholder pension schemes, the maximum annual pension contribution you can make to those schemes is the larger of

- £3,600, or
- the relevant age related percentage (see page 15) applied to the lower of your earnings or the earnings cap.

unless

you also belong to an occupational pension scheme that has not adopted the personal/stakeholder pension tax rules (see page 4). Then, you can only put up to £3,600 into your personal/stakeholder pension(s) each year, but this limit is on top of the contributions you can put into your occupational scheme.

The cap for 2000/2001 is £91,800 and its value is increased most years. So, if you earn above this amount, you may need to ask the manager of your pension scheme about the current value of the earnings cap and any impact this will have on your pension contributions and benefits.

Appendix 2

Controlling Directors

Controlling directors are company directors who on their own, or with their family or business associates, either

- **own or control** more than 20 per cent of the ordinary shares of the company that employs them, or
- **owned or controlled** more than 20 per cent of the ordinary shares of the company that employs them in the ten years leading up to their
  - retirement
  - leaving the service of their employer, or
  - leaving their employer's pension scheme.

Because of the influence that controlling directors may have over their employer and its pension scheme, special rules apply to their membership of approved occupational pension schemes. These rules are set out in the publication IR12 'Occupational Pension Schemes Practice Notes', which is available on subscription from Inland Revenue (Savings, Pensions, Share Schemes), see Part 4 of this booklet for contact details, or on the Internet at **www.inlandrevenue.gov.uk/pso**.

Our service commitment to you

The Inland Revenue and Customs & Excise are committed to serving your needs well by

acting fairly and impartially

We

- treat your affairs in strict confidence, within the law
- want you to pay or receive only the right amount due.

communicating effectively with you

We aim to provide

- clear and simple forms and guidance
- accurate and complete information in a helpful and appropriate way.

providing good quality service

We aim to

- handle your affairs promptly and accurately
- be accessible in ways that are convenient to you
- keep your costs to the minimum necessary
- take reasonable steps to meet special needs
- be courteous and professional.

taking responsibility for our service

- We publish annually our customer service aims and achievements.
- If you wish to comment, or make a complaint, we want to hear from you so we can improve our service. We advise you how to do this.

We can provide better service if you help us by

- keeping accurate and up to date records
- letting us know if your personal/business circumstances change
- giving us correct and complete information when we ask for it
- paying on time what you should pay.

Further information on customer service is available at Inland Revenue and Customs and Excise local offices, set out in our Charters, complaints leaflets (IR120 and Notice 1000) and Codes of Practice.

These notes are for guidance only and reflect the tax position at the time of writing.
They do not affect any right of appeal.

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